



Financial Statements
December 31, 2013

Northeast Council of Governments

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements	
Statement of Net Position – Proprietary Fund.....	7
Statement of Revenues, Expenses and Changes in Net Position.....	8
Statement of Cash Flows	9
Notes to Financial Statements	10
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	17
Auditor's Comments	19



Independent Auditor's Report

The Board of Directors
Northeast Council of Governments
Aberdeen, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Northeast Council of Governments, which comprise the statement of net position as of December 31, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Council of Governments as of December 31, 2013, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 17, 2014 on our consideration of Northeast Council of Governments's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northeast Council of Governments's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota
April 17, 2014

This section of the financial report represents management's discussion and analysis of the Northeast Council of Governments's (NECOG) financial performance during the year ended December 31, 2013. This report is presented to provide additional information about NECOG and to meet the requirements of GASB 34. This analysis should be read in conjunction with the independent auditor's report, financial statements, and the notes to the financial statements.

Nature of Operations for the Organization

NECOG is a governmental entity; the boundaries, counties, and cities included were established under Executive Order 70-7 by the State of South Dakota's governor's office. NECOG currently serves twelve counties in the Aberdeen, South Dakota area (northeastern South Dakota), initiating, guiding, and providing strategic planning within the area it serves. The primary objective of NECOG is to provide specific planning for rural economic development through projects to enhance the economic environment and improve or maintain the quality of life in the area it serves.

Financial Statements

The financial statements used by NECOG include a statement of net position. The statement of net position reports all financial and capital assets for NECOG. The statement is presented in a format where assets equal liabilities plus net position. Assets and liabilities are presented in order of liquidity. Current assets are those that are convertible to cash within one year.

The financial statements also include a statement of revenues, expenses and changes in net position (similar to an income statement). This statement includes revenues; such as federal grants, administrative fees, contract and local revenues and interest income and expenses; such as payroll related costs, professional fees and other. The focus of the statement of revenues, expenses and changes in net position is to show the change in net position.

A statement of cash flows is also included, which discloses net cash from or used for operating activities, nonoperating grants received, investments in capital assets and other investing activities.

The notes to the financial statements provide additional information essential to understanding the financial statements.

Statement of Net Position

The following table reflects the condensed statement of net position compared to the prior year:

	2013	2012
Assets		
Cash and cash equivalents	\$ 141,047	\$ 125,217
Certificates of deposit	1,758,292	1,681,999
Accounts receivable	93,613	113,227
Due from NECOG Development Corporation	8,551	8,301
Accrued interest receivable	8,508	10,912
Prepaid expenses	4,518	4,145
Total current assets	2,014,529	1,943,801
Capital Assets, Net of Accumulated Depreciation	44,925	38,902
	<u>\$ 2,059,454</u>	<u>\$ 1,982,703</u>
Liabilities		
Accounts payable	\$ 11,434	\$ 11,330
Accrued annual leave	15,717	15,675
Unearned revenue	59,034	69,963
Total current liabilities	86,185	96,968
Net Position		
Net investment in capital assets	44,925	38,902
Net position - unrestricted	1,928,344	1,846,833
Total net position	1,973,269	1,885,735
	<u>\$ 2,059,454</u>	<u>\$ 1,982,703</u>

Major Factors Affecting the Statement of Net Position

Current assets increased by \$70,728. This increase is primarily due to the increase in certificates of deposits as a result of an increase of revenue collections and contract billings as construction projects were completed throughout the year. Accounts receivable decreased by \$19,614 due to an increase of revenue collections in 2013.

Total liabilities decreased \$10,782. This is due primarily to a decrease in unearned revenue related to the timing of contract revenue collection and closing of contracts for projects started in prior years.

Total liabilities and net position increased \$76,751, which was primarily related to the decrease in unearned revenues and the change in net assets of \$87,534 for the year ended December 31, 2013.

Statement of Revenues, Expenses and Changes in Net Position

The following table compares the revenues and expenses for the current and previous fiscal years:

	2013	2012	% Change
Revenues			
Federal grants and funding revenues	\$ 142,331	\$ 141,270	1%
Contract revenues	201,377	311,195	-35%
Local revenues	134,593	132,408	2%
NECOG Development Corporation			
administrative fees	91,836	87,813	5%
Interest income	24,132	28,024	-14%
Other operating revenues	-	1,404	-100%
Total revenues	<u>594,269</u>	<u>702,114</u>	<u>-15%</u>
Expenses			
Salaries	296,912	296,746	0%
Payroll taxes and benefits	67,332	64,387	5%
Staff travel	11,499	13,118	-12%
Directors fees and travel	1,552	1,687	-8%
Insurance	9,769	8,756	12%
Professional fees	55,743	51,231	9%
Office rent	20,268	20,268	0%
Equipment rental and maintenance contracts	4,006	4,194	-4%
Expendable equipment purchases	3,743	8,464	-56%
Utilities and telecommunications	7,654	8,148	-6%
Membership and conference registration	6,205	6,306	-2%
Office expenses	5,208	5,868	-11%
Depreciation expense	15,333	7,841	96%
Miscellaneous expense	1,511	5,282	-71%
Total expenses	<u>506,735</u>	<u>502,296</u>	<u>1%</u>
Changes in Net Position	87,534	199,818	-56%
Net Position - Beginning	<u>1,885,735</u>	<u>1,685,917</u>	
Net Position - Ending	<u><u>\$ 1,973,269</u></u>	<u><u>\$ 1,885,735</u></u>	

Major Factors Affecting the Statement of Revenues, Expenses and Changes in Net Position

Contract income decreased \$109,818 (35%), largely due to decreased project administration workload and diminishing activity within hourly contract administration as projects near completion and are closed. Federal grants and funding revenue increased \$1,061. Total expenses increased \$4,439 (1%), mostly due increased insurance expenses and increased depreciation expenses as new company vehicles were purchased at the end of 2012 and beginning of 2013.

Net position at the beginning of the year was \$1,885,735 and at the end of the year was \$1,973,269 (including net investment in capital assets), resulting in an increase in net position (net income) of \$87,534.

Capital Asset and Debt Administration

Capital Assets – During 2013, NECOG purchased a new vehicle for \$21,357.

Debt Outstanding – NECOG had no debt outstanding in 2013 or 2012.

Currently Known Facts, Decisions or Conditions

NECOG has made a commitment to the NECOG Development Corporation to provide matching funds up to \$187,500 as they make qualifying loans under their Intermediary Relending Program beginning in 2011. Through December 31, 2013, \$100,300 of the \$187,500 committed had been provided to NECOG Development Corporation.

Financial Contact

If you have any questions about this report or need additional financial information, contact the Northeast Council of Governments Accountant at (605) 626-2595 or by writing to Northeast Council of Governments, 2201 6th Avenue SE, Suite 2, PO Box 1985, Aberdeen, SD 57402-1985.

Northeast Council of Governments
Statement of Net Position – Proprietary Fund
December 31, 2013

Assets

Current Assets

Cash and cash equivalents	\$ 141,047
Certificates of deposit	1,758,292
Accounts receivable	76,800
Grants receivable from other governments	16,813
Due from NECOG Development Corporation	8,551
Accrued interest receivable	8,508
Prepaid expenses	4,518
	<u>2,014,529</u>
Total current assets	<u>2,014,529</u>

Noncurrent Assets

Capital assets, at cost:

Automobiles	52,935
Leasehold improvements	36,787
Office equipment	31,624
	<u>121,346</u>
Less accumulated depreciation	<u>(76,421)</u>

Total noncurrent assets	<u>44,925</u>
	<u><u>\$ 2,059,454</u></u>

Liabilities and Net Position

Current Liabilities

Accounts payable	\$ 11,434
Accrued annual leave	15,717
Unearned revenue	59,034
	<u>86,185</u>
Total current liabilities	<u>86,185</u>

Net Position

Net investment in capital assets	44,925
Unrestricted net position	1,928,344
	<u>1,973,269</u>
Total net position	<u><u>\$ 2,059,454</u></u>

Northeast Council of Governments
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2013

Operating Revenues	
Contract revenues	\$ 201,377
Federal grant and funding revenues	75,364
Local revenues and support	134,593
NECOG Development Corporation administrative fees	91,836
	<u>503,170</u>
Total revenues	
Operating Expenses	
Salaries	296,912
Payroll taxes	22,259
Employee benefits	45,073
Staff vehicle expense	4,420
Travel	7,079
Directors fees and travel	1,552
Insurance	9,769
Professional fees	55,743
Office rent	20,268
Equipment rentals	661
Office supplies	3,743
Maintenance contracts	3,345
Utilities and telecommunications	7,654
Memberships and conferences	6,205
Postage	2,012
Subscriptions and publications	3,196
Depreciation expense	15,333
Meeting expense	653
Miscellaneous and other expenses	858
	<u>506,735</u>
Total operating expenses	
Operating Loss	<u>(3,565)</u>
Nonoperating Revenue (Expense)	
Grant income	66,967
Interest income	24,132
	<u>91,099</u>
Total nonoperating revenue (expense)	
Changes in Net Position	87,534
Net Position, Beginning of Year	<u>1,885,735</u>
Net Position, End of Year	<u><u>\$ 1,973,269</u></u>

Northeast Council of Governments

Statement of Cash Flows

Year Ended December 31, 2013

Cash Flows from Operating Activities	
Receipts from customers	\$ 301,766
Receipts from grants and federal funding	74,830
Receipts from local revenues and support	135,009
Payments to suppliers and others	(149,686)
Payments to employees	(341,943)
	<u>19,976</u>
Net Cash from Operating Activities	
Cash Flows from Noncapital Financing Activities	
Nonoperating grants received	<u>66,967</u>
Net Cash from Noncapital Financing Activities	<u>66,967</u>
Cash Flows used for Investing Activities	
Redemption of certificates of deposit	248,860
Purchase of certificates of deposit	(325,154)
Purchase of fixed assets	(21,356)
Interest received	26,536
	<u>(71,114)</u>
Net Cash used for Investing Activities	
Net Change in Cash and Cash Equivalents	15,829
Cash and Cash Equivalents - Beginning	<u>125,217</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 141,046</u></u>
Reconciliation of Operating Loss to	
Net Cash from Operating Activities	
Operating loss	\$ (3,565)
Adjustments to reconcile operating loss to:	
Depreciation	15,333
Change in assets and liabilities:	
Accounts receivable	19,614
Due from NECOG Development Corporation	(250)
Prepaid expenses	(373)
Accounts payable	104
Accrued annual leave	42
Unearned revenue	(10,929)
	<u>(10,929)</u>
Net Cash from Operating Activities	<u><u>\$ 19,976</u></u>

Note 1 - Nature of Operations and Significant Accounting Policies

The accounting policies of the Northeast Council of Governments (NECOG) conform to accounting principles generally accepted in the United States of America applicable to governmental units. The following is a summary of the significant policies.

Reporting Entity

NECOG is a governmental entity; the boundaries, counties, and cities included were established under Executive Order 70-7 by the State of South Dakota's governor's office. NECOG currently serves twelve counties in the Aberdeen, South Dakota area (northeastern South Dakota), initiating, guiding, and providing strategic planning within the area it serves. The primary objective of NECOG is to provide specific planning for rural economic development through projects to enhance the economic environment and improve or maintain the quality of life in the area it serves.

The staff of NECOG provides technical and professional assistance to member units of government in writing grant proposals, comprehensive planning, analyzing local resources, and similar assistance. The financial statements presented in this report represent all the funds and fiscal activities under the control of the Board of Directors, through a five member Executive Board elected from the full board of NECOG. NECOG is governed by a board consisting of county commissioners, city officials, and private citizens. Control is determined by oversight, legal responsibilities, and financial accountability.

The accompanying financial statements have been prepared from records pertaining to and including all the funds, operations, activities, and financial affairs of NECOG.

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America on the accrual basis of accounting; revenues are recognized when earned and expenses are recognized when incurred.

The accounts are organized on the basis of funds. During 2013, all activities were accounted for through the general fund; there were no separate special purpose funds in 2013. The operations of the general fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenses. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. For 2013, NECOG's funds are grouped into one broad fund category and fund type as follows.

Proprietary Funds

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The General Operating Fund was the only enterprise fund maintained by NECOG for 2013. It is the only major fund for financial reporting purposes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of NECOG's general fund are contract revenues from the administering of grant programs on the behalf of other governmental entities and annual dues received from its member cities and counties. Operating expenses for the fund includes all administrative costs of the entity and depreciation expense. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is NECOG's policy to use restricted resources first, then unrestricted resources as they are needed.

Cash and Cash Equivalents

For purpose of the statement of cash flows, NECOG considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents; all cash accounts and unrestricted temporary cash investments at the financial statement reporting date were considered to be cash equivalents in the accompanying statement of net position.

Accounts Receivable, Unearned Revenue and the Recognition of Revenue

Resources from grants are recorded as revenue, when the related costs are incurred using the percentage of completion method, measured by the ratio that costs incurred bears to total estimated costs. Adjustments to cost estimates are made periodically. If the funding received under a grant is less than the revenue earned, based on matching requirements and costs incurred, the revenue is accrued (recorded as revenue) and presented as an account receivable in the accompanying financial statements. If funding received under a grants exceeds the revenue earned, based on costs incurred, the revenue is deferred (not recognized as revenue until such time in the future when earned) and presented as unearned revenue in the accompanying financial statements.

Local funding provided by member counties and cities is recorded as revenues of the year to which the funding commitment is related. These revenues are applied as local funding match to individual grants on the basis of total expenditures of the grant in the cost sharing ratio specified in the grant agreement.

Federal funding is recorded as revenues by individual grant for the federal share of costs incurred to date determined by the cost-sharing ratio specified in the grant agreement or contract. If the funding received for a grant is less than the revenue earned, based on cost-sharing ratio, the revenue is accrued (the accrual is recorded as revenue) and presented as a receivable in the accompanying financial statements. If the funding received for a grant exceeds the revenue earned, based on cost-sharing ratio, the revenue is deferred (not recognized as revenue and deferred) and presented as unearned revenue in the accompanying financial statements.

Indirect Cost System

Indirect costs are applied or allocated to individual grants based upon a fixed ratio or percent of direct salaries, payroll taxes, and employee benefits charged to a grant. This rate is reviewed annually and revised as necessary in an attempt to minimize over- or under-applied indirect costs. The resulting over- or under-applied indirect costs for year end are charged or credited, as appropriate, are carried forward to the next year's indirect cost allocation.

The indirect costs system has previously been approved by the U.S. Department of Justice and is operated in accordance with guidelines established by OMB Circular A-87, Cost Principles for State and Local Governments. The indirect cost rate for 2013 was 37% of direct salaries, payroll taxes, and employee benefits.

Capital Assets and Depreciation

Capital assets include vehicles, leasehold improvements, office and computer equipment, and software and are recorded at cost and depreciated over their estimated useful lives. NECOG uses a capital asset capitalization policy of \$5,000; items costing less than this amount (individually) are charged as expense to current year operations, as expendable equipment or supplies. Major renewals and betterments are capitalized in the capital asset accounts and depreciated; while replacements, maintenance, and repairs, which do not improve or extend the lives of respective assets, are charged to current year operations as repairs and maintenance expense. Depreciation is computed on the straight-line method using estimated useful lives of three to five years.

Accrued Annual Leave and Employee Benefits

The cost of compensated leave and employee benefits are accrued as they are vested to the employee.

Self-Insurance – Unemployment Benefits

NECOG is under the self-insurance method for paying unemployment claims. Under this method, NECOG pays unemployment benefit claims to the State system as they are billed rather than contributing to the State system. Costs resulting from claims are charged to income as expenses when incurred. There were no unemployment benefit costs during 2013.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from the estimates that were used.

Income Taxes

NECOG is a governmental entity exempt from Federal income taxes; therefore, no provision for income taxes has been presented in the accompanying financial statements. The State of South Dakota does not have an income tax.

Recent Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. The statement amends the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to government employers that account for pensions provided through trusts, or equivalent arrangements, that meet certain criteria. The statement includes accounting guidance for employers participating in single-employer and multiple-employer defined benefit pension plans, cost-sharing plans and defined contribution plans. The statement also addresses note disclosure and required supplementary information for employers whose employees are provided with defined benefit pensions through trusts. GASB 27 and 50 will remain applicable to employers whose pensions are not covered by the scope of this new statement.

Under the new statements, a cost-sharing employer whose employees receive pensions through a trust will report a net pension asset or liability, deferred outflows or inflows of resources related to pensions and pension expense based on its proportionate share of the collective net pension liability of all employers in the plan. The share of collective net pension liability recognized by an individual employer should be based on the employer's relationship to all employers and non-employer contributing entities in the plan. The employer's proportion should be consistent with how contributions are determined; the use of the long-term contribution effort of the employer is encouraged. The measurement of collective net pension liability, pension expense and other key information will follow the same standards that apply to single and agent employers. The effects of changes to an employer's expected proportion of total employer-related contributions—as well as the effects of differences between the expected and actual proportionate share of total employer-related contributions each period—will be reported as a deferred outflow or inflow of resources and recognized in the employer's pension expense in a systematic and rational manner over a closed period representative of the average expected remaining service lives of employees, beginning with the period of adoption. Under the current standards, governments recognize only the portion of cost-sharing pension obligations related to their annual required contributions.

GASB 68 will be effective for fiscal years beginning after June 15, 2014, with earlier application is encouraged. NECOG is currently evaluating the impact this statement will have on financial reporting.

Note 2 - Deposits and Investments

NECOG's deposits are made and held in qualified public depositories. In South Dakota, qualified depositories are required by SDCL 4-6A to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA.

NECOG maintains its cash balances, savings accounts, and certificates of deposit at financial institutions in the general local area. The cash balances are held in institutions insured by the FDIC or NCUA. All cash balances, including interest earned, where applicable, have market values at December 31, 2013 that are substantially the same as the carrying value in the accompanying financial statements. Deposits are reported at cost plus interest, if the account is of the add-on type.

Custodial Credit Risk Deposits: The risk that, in the event of a bank failure, NECOG's deposits may not be returned. NECOG does not have a formal deposit policy for the custodial credit risk, but maintains its cash accounts in several commercial bank deposit accounts to help lower this risk. NECOG believes it is not exposed to any significant credit risk on cash and cash equivalents and NECOG has not experienced any losses on such accounts.

The actual bank balances of NECOG were as follows:

	<u>Bank Balance</u>
Insured (FDIC)	\$ 1,915,907
Uninsured	<u>-</u>
Total deposits	<u>\$ 1,915,907</u>
NECOG's carrying amount of deposits at December 31	<u>\$ 1,899,339</u>

Note 3 - Capital Assets

A summary of changes in capital assets for the year ended December 31, 2013 is as follows:

	<u>Balance 01/01/13</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/13</u>
Cost				
Automobiles	\$ 42,436	\$ 21,356	\$ 10,857	\$ 52,935
Leasehold improvements	36,787	-	-	36,787
Office equipment	31,624	-	-	31,624
	<u>\$ 110,847</u>	<u>\$ 21,356</u>	<u>\$ 10,857</u>	<u>\$ 121,346</u>
Accumulated Depreciation				
Automobiles	\$ 22,773	\$ 7,492	\$ 10,857	\$ 19,408
Leasehold improvements	21,817	5,613	-	27,430
Office equipment	27,355	2,228	-	29,583
	<u>\$ 71,945</u>	<u>\$ 15,333</u>	<u>\$ 10,857</u>	<u>\$ 76,421</u>

The provision reported above of \$15,333 is the depreciation expense charged to current year operations.

Note 4 - Retirement Plan

Employees of NECOG participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by State statute to contribute the following percentages of their salary to the plan; Class A members, 6% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Member, 8% of salary. Cost allocations of retirement benefits, as with other employee benefits, are allocated to specific projects, programs, and grants based on payroll cost allocations. NECOG's share of contributions made to the SDRS for the years ended December 31, 2013, 2012 and 2011 were \$17,754, \$17,250 and \$16,241, respectively.

Note 5 - Operating Lease - Lease Commitment

NECOG leases its office facilities. The lease agreement is for monthly rentals of \$1,689 per month, through the end of May 2015. The total rent for the year ending December 31, 2013 was \$20,268.

Future minimum lease payments for the remaining lease terms are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2014	\$ 20,268
2015	8,445
	<u>\$ 28,713</u>

Note 6 - Related Party Transactions

In January 1995, NECOG spun off the Revolving Loan Fund, forming a new separate corporation, under Internal Revenue Code Section 501 (c)(3). The new corporation is NECOG Development Corporation (Development Corporation) and it issues its own separate annual financial report.

NECOG charges an administrative fee for the services it provides and expenses incurred for the Development Corporation. NECOG shares its offices with the Development Corporation; however, the Development Corporation is not a component unit of NECOG.

NECOG provides services and office space to the Development Corporation. During the year 2013, NECOG charged the Development Corporation administrative fees totaling \$91,836. NECOG also had a receivable from the Development Corporation totaling \$8,551 as of December 31, 2013. See also Note 9.

Note 7 - Risk Management

Liability and casualty insurance are carried for risks of loss related to torts, theft, or damage to property; and errors and omissions of public officials through a commercial insurance carrier. All employees of NECOG are also covered by workers compensation insurance. NECOG reviews insurance coverage annually to determine if any additions or revisions need to be made for future years.

Note 8 - Concentration

NECOG receives a substantial amount of its revenues or support from federal, state, and local governments. A reduction in the level of funding or this support, if it were to occur, may have a significant negative impact on NECOG's operations and activities.

Note 9 - Commitments

NECOG has made a commitment to the NECOG Development Corporation to provide matching funds at 25% as the Development Corporation makes qualifying loans under their Intermediary Relending Program in an amount up to \$187,500 beginning in 2011. Funds drawn down by the Development Corporation during the year ended December 31, 2013 totaled \$0 with the 25% match provided by NECOG totaling \$0. As of December 31, 2013, \$86,200 remains outstanding of the total commitment.



CPAs & BUSINESS ADVISORS

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the Board of Directors
Northeast Council of Governments
Aberdeen, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Northeast Council of Governments, which comprise the statement of net position as of December 31, 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 17, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered NECOG's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NECOG's internal control. Accordingly, we do not express an opinion on the effectiveness of NECOG's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying auditor's comments we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying auditor's comments, item 2013-A, to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NECOG's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Northeast Council of Governments's Response to Findings

NECOG's response to the finding identified in our audit is described in the accompanying auditor's comments. NECOG's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Erik Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
April 17, 2014

Prior Audit Findings

Finding 2012-1 Preparation of Financial Statements, Footnotes and Journal Entries

Current Status: This finding has not been resolved as of December 31, 2013 and is restated as current year finding 2013-A.

Current Audit Findings and Recommendations

Finding 2013-A Preparation of Financial Statements, Footnotes and Proposed Journal Entries

Material Weakness

Condition: Northeast Council of Governments does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In conjunction with the completion of our audit, NECOG requested the external auditors to prepare the financial statements, related footnotes and disclosures for the year ended December 31, 2013. As a part of the financial statement preparation process, at times, the auditors propose material audit adjustments that are not identified as a result of NECOG's existing internal controls and; therefore, could result in a misstatement of NECOG's financial statements.

Criteria: NECOG's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited, in accordance with generally accepted accounting principles.

Cause: NECOG does not have adequate staff trained to prepare financial statements and the related footnotes in accordance with generally accepted accounting principles, which could cause the need for auditors to, at times, propose material journal entries.

Effect: Although this circumstance is not unusual for an organization of your size, the preparation of financial statements as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by NECOG personnel. This condition may affect NECOG's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions should take place prior to the beginning of the audit, to ensure that generally accepted accounting principles have been followed, especially for transaction types infrequent in occurrence.

Management Response: Management and the Board of Directors will review for propriety the draft financial statements and footnotes prepared by the auditor and review all recommended audit adjusting entries proposed by the auditor. Due to NECOG's size, we will accept the risk associated with this condition based on cost and other considerations.

Explanation of Disagreement: No disagreement noted

Official Responsible for Ensuring Corrective Action Plan: Eric Senger, Executive Director

Planned Completion for Correction Action: Ongoing

Plan to Monitor Completion of Corrective Action: Ongoing